

## Message Text

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ACTION FRB-01

INFO OCT-01 EUR-12 ISO-00 SP-02 ICA-20 AID-05 EB-08  
NSC-05 SS-15 STR-07 OMB-01 CEA-01 CIAE-00 COME-00  
INR-10 NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01  
DODE-00 PM-05 H-02 L-03 PA-02 /115 W  
-----035702 022108Z /70

R 011601Z AUG 78

FM AMEMBASSY ROME

TO SECSTATE WASHDC 4609

TREASURY DEPT WAS DC

UNCLAS ROME 14095

PASS FRB

E.O. 11652: N/A

TAGS: EFIN, IT

SUBJECT: CEILINGS ON BANKS' LENDING EXTENDED TO END MARCH 1979;  
PORTFOLIO CONSTRAINT IN SUSPENSION

REF.: A. ROME 11476; B. ROME 6182

1. CEILINGS ON BANKS' LIRA LOANS TO LARGE COMMERCIAL CUSTOMERS WERE RENEWED ON AUGUST 1 TO MARCH 31, 1979. THE CEILINGS HAD PREVIOUSLY BEEN RENEWED ON APRIL 1 TO JULY 31, 1978 (REF B). THE CURRENT EXTENSION PROVIDES FOR AN EXPANSION OF LOANS SUBJECT TO THE CEILINGS OF 14 PERCENT IN THE 12 MONTHS ENDING MARCH 31, 1979. RELATIVE TO SUBJECT LOANS OUTSTANDING AS OF MARCH 31, 1978, THE STOCK MAY INCREASE BY 6 PERCENT AS OF END SEPTEMBER, 7 PERCENT END NOVEMBER, 13 PERCENT END JANUARY AND 14 PERCENT END MARCH 1979.

2. THE PORTFOLIO CONSTRAINT, OR "FLOOR" ON BANKS' HOLDINGS OF SECURITIES, IS IN A KIND OF SUSPENSE SINCE IF FORMALLY EXPIRED END JUNE THIS YEAR (REF A). BANKS MAY NOT SELL OFF THEIR PRESENT HOLDINGS OF SECURITIES BUT THEY ARE NOT CURRENTLY OBLIGED TO  
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INCREASE THEM IN LINE WITH THEIR DEPOSIT INCREASES.

3. THE CEILINGS ON LOAN EXPANSION AND THE FLOORS ON SECURITIES HOLDINGS CONSTITUTE THE BANK OF ITALY'S DIRECT CREDIT CONTROL PROGRAM THAT HAS GENERALLY BEEN IN PLACE SINCE JUNE 1973. THE PROGRAM WAS INTRODUCED BECAUSE THE INCREASING TREASURY DEFICIT WAS MAKING IT DIFFICULT FOR THE BANK OF ITALY TO CONTROL MONETARY

BASE CREATION AND THE CONSEQUENT EXPANSION OF THE MONETARY  
AGGREGATES. THE DIRECT CREDIT CONTROL PROGRAM IS AIMED BOTH  
AT REDISTRIBUTING DOMESTIC CREDIT IN FAVOR OF THE PUBLIC SECTOR  
AND CONTROLLING ITS OVERALL EXPANSION. IN ADDITION, THE PROGRAM  
HELPS IN FINANCING BALANCE OF PAYMENTS DEFICITS OR, AS AT PRESENT,  
BUILDING UP OFFICIAL RESERVE HOLDINGS BECAUSE LOANS IN  
FOREIGN EXCHANGE ARE EXEMPT FROM THE CEILINGS; BANKS ARE THUS  
ENCOURAGED TO BORROW ABROAD AND LEND IN FOREIGN EXCHANGE TO  
ITALIAN CUSTOMERS. HOLMES

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 jan 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** BANKS, CREDIT CONTROLS  
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**Copy:** SINGLE  
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**Decaption Date:** 01 jan 1960  
**Decaption Note:**  
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**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:**  
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**Review Markings:**  
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